
STATE SCHOOL AID UPDATE

Michigan Department of Education

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SCHOOL AID PRORATION

With the enactment of Senate Bill 556 as PA 239 of 2003 and Senate Bill 852 as PA 239 of 2003 (see related item in December UPDATE and below), the estimated school aid fund shortfall for FY 2004 has been revised downward from \$349.5 million to \$149 million. Consequently, the per pupil proration factor used to calculate local district and public school academy state school aid in the January payment has been revised downward from \$196 to \$84. The percentage proration factor for intermediate districts used in the calculation of the January payment has been revised downward from 7.15% to 3.12% of allowances that are “unprotected” from proration. These proration factors result in approximately a 1.33% reduction of the **total** amount of FY 2004 state school aid due to each local district, public school academy, and intermediate school district.

Proration of FY 2004 state school aid began with the December 2003 payment. Pursuant to the language in Section 11 of the State School Aid Act, local districts and public school academies had their school aid payments prorated on an **equal per pupil** basis. Intermediate districts had their school aid prorated on an **equal percentage** basis. The amount of the local district and public school academy per pupil reduction used in the calculation of the December payment was \$196. The percentage reduction for intermediate districts used in the calculation of the December payment was 7.15% of unprotected allowances. School aid proration for FY 2004 is being spread over the nine payments from December 2003 through August 2004. Therefore, the proration amounts deducted to date have been amended in the January payment to reflect 22.22% of the revised proration amounts using \$84 per pupil for local districts and academies and using 3.12% for intermediate school districts. Because the proration factors have been reduced by more than half, districts, academies, and ISDs will see a partial restoration of funds on that line in the January payment. (Dan Hanrahan, Office of State Aid and School Finance, (517) 335-0521, or e-mail: HanrahanD@Michigan.gov)

SENATE BILLS 852 AND 556 ENACTED

Senate Bill 852 and 556 were enacted into law as PA 239 and PA 236, respectively, with an effective date of December 29, 2003. PA 239 delays the scheduled rollback of the income tax to 3.9% to July 1, 2004. PA 236 recognizes additional revenue of \$45.6 million for FY 2004 school aid based on the income tax rollback pause. Also, PA 236 eliminates the FY 2004 appropriation of \$1 million for each of Section 108 (Program for Adult Learning) and Section 68 (Career Development) and increases the Section 26a (Renaissance Zone) appropriation by \$4.7 million. It was reported in the December UPDATE that the enactment of these two bills could potentially result in a lowering of the FY 2004 school aid proration. Indeed, the per pupil proration factor used for local districts and academies and the percent proration factor used for intermediate districts have been lowered as a result of the enactment of Senate Bills 852 and 556 (see related item above).

REVENUE CONFERENCE ESTIMATES COULD AFFECT FY 2004 SCHOOL AID

A revenue estimating conference is scheduled for Wednesday, January 14, at which time the State Treasurer and the Directors of the House and Senate Fiscal Agencies will attempt to reach consensus on revenue estimates for the current and next fiscal years. In addition, pupil counts are analyzed for all districts and PSAs across the state in order to assess how far the anticipated dollars must be stretched. The estimates will provide significant information to be used as the State Budget Office and the Governor's staff build/amend Executive Budget Proposals. Also, the results of this conference (which are not known at the time of this UPDATE) can potentially affect the proration factors that are being used to calculate FY 2004 state school aid (see related items above). More information regarding the January 14th revenue estimating conference will be reported in the February UPDATE.

STATE AID CONTINUES TO BE WITHHELD FOR DELINQUENT REPORTS

A handful of districts and PSAs continue to have state aid withheld because they have failed to file the financial audit report and/or the Form B - Annual Comprehensive Financial Report. Payments will continue to be withheld until the required reports are received. All FY 2003 *pupil accounting* audit reports have been

filed. Questions regarding the *audit reports* may be directed to Kathy Weller, Office of Audits, (517) 335-6858, or e-mail: WellerK@Michigan.gov. Districts with questions pertaining to the *Form B* may contact Glenda Rader, State Aid & School Finance, (517) 335-0524, or e-mail: RaderG@Michigan.gov. We greatly appreciate the cooperation of all those who have filed their reports in a timely manner.

SECTION 32J GREAT START PROJECTS ON STATUS REPORT

Intermediate school districts with an approved Great Start grant (Section 32j) will see the allowance on the January status report for the first time. The January payment will be 36.36% of the allowance,

SHORT TERM DEDUCT FORMULA

Some districts have incurred school aid deducts for operating less than 180 instructional days or 1,098 instructional hours in FY 2003 as reported on form DS-4168, Report of Days and Clock Hours of Instruction. Pursuant to language in Section 101 of the State School Aid Act, a district failing to comply with the required minimum days or hours of instruction shall forfeit from its total state aid allocation an amount determined by applying "a ratio of the number of hours (or days) the district was in noncompliance in relation to the required minimum." The ratio is applied against the district's total adjusted state aid (FY 2003 in this case) minus any Durant and Adult Education Funds. For example, a district short one day, with adjusted state aid of \$1,000,000, Adult Education Funds of \$100,000 and Durant funds of \$90,000 would incur a penalty of \$4,500 as follows:

$$((\$1,000,000 - \$100,000 - \$90,000) \times (1/180)) = \$4,500$$

The deduction would be prorated accordingly if the noncompliance is for only part of the district such as one grade level or one building. **NOTE:** Section 101 of the State School Aid Act was amended for FY 2004 to eliminate the requirement for 180 days. The deductions appearing on the January 2004 status reports pertain to FY 2003 when the 180 day requirement was still in effect. (Joellen Wonsey, (517) 373-3352, or WonseyJ@Michigan.gov)

ADULT EDUCATION ADJUSTMENTS FOR FY 2003

Districts operating adult education programs may see two prior year adjustments for FY 2003 Section 107 payments. As is described in Section 107(10)(b), 10% of a district's allocation is based upon program objectives and completion. Adjustments for meeting less than 100% of objectives have been made. Those recovered funds have been redistributed to districts that reported participant FTE counts in excess of their caps. FTEs above the cap are being paid out at 23.69% per FTE (\$675.17) based on information provided on the AE-4859 Section 107 Performance Report. Questions regarding the calculation of the adjustment may be directed to Joellen Wonsey, Office of State Aid & School Finance, (517) 373-3352, or WonseyJ@Michigan.gov. With questions regarding the AE-4859 Report, contact Sandy Thelen, Department of Labor and Economic Growth at (517) 373-3395 or e-mail ThelehSJ@Michigan.gov.

UPDATE TO THE MICHIGAN PUBLIC SCHOOL ACCOUNTING MANUAL

Change Notice Number 11 updating the Michigan Public School Accounting Manual was mailed to business managers on December 23, 2003. This information may also be found on our website at www.Michigan.gov/mde. Click on "keywords" in small print near the top of the page and then "Michigan Public School Accounting Manual." Districts are required to implement these changes in financial records that are to be reported for the 2004-2005 fiscal year.

IMPORTANT DATES TO REMEMBER

- C **February 1** is the due date for districts and ISDs to report to the local health department the **immunization status** of each new pupil in grades K-12 who enrolled in the district or ISD for the first time during the immediately preceding calendar year and all 6th graders, pursuant to State School Aid Act Section 167. (Patty Lawless, (517) 373-1122, LawlessP@Michigan.gov)
- C **February 11** is the **supplemental count day** for all districts, ISDs, and PSAs and the 3rd quarterly count date for adult education participants. (Joellen Wonsey, (517) 373-3352, WonseyJ@Michigan.gov)

*Do you have questions about the information appearing in this UPDATE? Call the consultants identified above or **Dan Hanrahan, Director, State Aid & School Finance, MDE**, phone: (517) 335-0521, fax: (517) 241-0196, e-mail: HanrahanD@Michigan.gov